

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: AR&T Committee Analyst: John Pavalasky Bill Number: AB 1115

Related Bills: See Prior Analysis Telephone: 845-4335 Amended Date: 9/07/01

Attorney: Patrick Kusiak Sponsor: Franchise Tax Board

SUBJECT: Nonresident Taxation/Coordination of Minimum Tax Credit with Credits that Reduce Tax Below Tentative Minimum Tax/Full Payment Rule/ Usage of Tax Credit by Holders of Interests in Pass-Through Entities/ Disclosure of Return and Return Information for Personnel Matters/ Limited Partnership Tax Technical Change

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS DATED MARCH 26, 2001, AND JUNE 19, 2001, STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY

This Franchise Tax Board (FTB) sponsored bill would:

- **Make a comprehensive change in the manner that nonresidents and part-year residents are taxed** - Specify, for the first time, clear, definitive rules that would be applied consistently to all taxpayers for calculating loss carryovers, deferred deductions, and deferred income.
- **Coordinate the Alternative Minimum Tax Credit (AMTC) with credits that reduce tax below Tentative Minimum Tax (TMT)** - Eliminate conflicting statutory language and provide clear and definitive rules for the ordering of credits that are applied against tax.
- **Full payment rule** - Ensure that taxpayers can file refund claims for overpaid income taxes even though the tax was paid through installment payments.

Board Position:

<input checked="" type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

10/11/01

- **Usage of tax credits by holders of interests in pass-through entities -**
Remove an inequity in the law by allowing a holder of an interest in a pass-through entity to realize the same tax benefits whether the pass-through entity files on a fiscal year or calendar year basis.
- **Disclosure of return and return information for personnel matters -**
Authorize disclosure of confidential taxpayer information to an FTB employee or former FTB employee, a legal representative of such employee, an Administrative Law Judge (ALJ), or a Superior Court Judge for use in disciplinary actions. The authorization provided by this provision would follow the same methodology used by the Internal Revenue Service (IRS) in handling personnel actions.
- **Limited partnership tax technical change -** Make references to the limited partnership annual tax in the Revenue and Taxation Code (R&TC) correct and consistent.

SUMMARY OF AMENDMENT

The September 7, 2001, amendments removed the section of the bill that would have allowed alimony to be deducted by nonresidents.

In addition, technical amendments are made to delete the obsolete term "income year" and rearrange the order of sections within the bill.

The remainder of the previous analyses dated March 26, 2001, and June 19, 2001, still apply. A revised revenue chart is provided.

POSITION

Support.

At its December 18, 2000, meeting, the Franchise Tax Board voted 2-0 to sponsor the language introduced in this legislation.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue effects. The bill is effective with taxable years beginning on and after January 1, 2002. Revenue impacts, if any, in 2001-02, would be negligible.

Estimated Revenue Impact of AB 1115 [\$ In Millions]			
Provision	2002-03	2003-04	2004-05
1 Change in taxing nonresidents and part-year residents *	unknown	unknown	unknown
2 Definitive rules for ordering of applied credits	minor gain	minor gain	minor gain
3 Full payment rule	minor loss	minor loss	minor loss
4 Usage of tax credit by holders of interests in pass-through entities	--	--	negligible loss
5 Disclosure of confidential tax return information for disciplinary actions	no impact	no impact	no impact
6 Limited partnership tax technical change	no impact	no impact	no impact

Negligible loss is less than \$250,000.

Minor gain or loss is less than \$500,000.

* Both revenue gains and losses would result depending on tax characteristics of nonresident filers.

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